



**New Issue: MOODY'S ASSIGNS MIG 1 RATING TO NEW BEDFORD'S (MA) \$37.7 MILLION GENERAL OBLIGATION BOND ANTICIPATION NOTES**

Global Credit Research - 27 Jan 2012

**A1 LONG-TERM RATING APPLIES TO \$94.6 MILLION OF LONG-TERM GOLT DEBT; \$84 MILLION ALSO CARRIES ENHANCED Aa2 RATING WITH STABLE OUTLOOK**

NEW BEDFORD (CITY OF) MA  
Cities (including Towns, Villages and Townships)  
MA

**Moody's Rating**

ISSUE	RATING
Bond Anticipation Notes (Series A - Renewal - Taxable)	MIG 1
<b>Sale Amount</b>	\$7,353,000
<b>Expected Sale Date</b>	02/03/12
<b>Rating Description</b>	Note: Bond Anticipation
Bond Anticipation Notes (Series B - Renewal - Tax Exempt)	MIG 1
<b>Sale Amount</b>	\$4,100,000
<b>Expected Sale Date</b>	02/03/12
<b>Rating Description</b>	Note: Bond Anticipation
Bond Anticipation Notes (Series C - New Money and Renewal - Tax Exempt)	MIG 1
<b>Sale Amount</b>	\$26,262,625
<b>Expected Sale Date</b>	02/03/12
<b>Rating Description</b>	Note: Bond Anticipation

**Moody's Outlook** N/A

**Opinion**

NEW YORK, January 27, 2012 --Moody's Investors Service has assigned a MIG 1 rating to the City of New Bedford's (MA) \$7.3 million General Obligation Bond Anticipation Notes, Series A (dated February 10, 2012 and payable June 15, 2012), \$4.1 million G.O. Bond Anticipation Notes, Series B (dated February 10, 2012 and payable June 15, 2012) and \$26.2 million G.O. Bond Anticipation Notes, Series C (dated February 10, 2012 and payable February 8, 2013). Moody's maintains a long-term bond rating of A1, affecting approximately \$94.6 million of New Bedford's previously-issued general obligation, limited tax (GOLT) debt. Of the outstanding GOLT bonds, roughly \$84 million also carries the Massachusetts Qualified Bond Program's enhanced rating of Aa2 with a stable outlook.

The notes are secured by the city's general obligation, limited tax pledge, as debt service has not been exempted from the levy limitations of Proposition 2 ½. Proceeds of the notes provide short-term financing

for the following purposes: Series A - renewal of notes issued for remediation of environmental contamination; Series B - renewal of notes issued for communication equipment and school construction; Series C - \$18.5 million in renewal, and \$7.7 million of new money, for various city capital needs including school construction, airport improvements, computer software and additional remediation of environmental contamination.

#### SUMMARY RATINGS RATIONALE

Assignment of the MIG 1 rating reflects our expectation that New Bedford is likely to obtain sufficient market access for the current issue, based on the city's history of demonstrated capital market access and our expectation that the notes will be permanently financed by State Qualified Bonds, as well as the city's underlying long-term credit characteristics. The A1 long-term rating incorporates the city's sizeable tax base with below-average wealth and income levels, satisfactory financial position which is expected to narrow over the near term, and affordable debt burden. The enhanced Aa2 rating and stable outlook reflect the additional security provided by the direct payment of debt service by the Commonwealth of Massachusetts (G.O. rated Aa1/stable outlook) under the Qualified Bond Act.

#### STRENGTHS:

- Satisfactory history of market access
- Satisfactory although narrowing, financial position
- Sizable, mature and diverse tax base with deep water port
- Manageable debt burden

#### CHALLENGES

- Elevated exposure to state aid
- High unfunded liabilities for pension and OPEB
- Modest demographic profile with a declining population trend

#### DETAILED CREDIT DISCUSSION

##### ADEQUATE HISTORY OF MARKET ACCESS

New Bedford has demonstrated a satisfactory history of access to the capital markets. The city's most recent note sale, dated August 19, 2011, received four bids on unrated revenue anticipation notes. Four bids were also received on a prior sale of rated bond anticipation notes, dated June 24, 2011. On its note sales both dated February 11, 2011, received three bids on taxable notes and five bids on tax-exempt notes. All bids were received from major regional and national financial institutions. Based on this history we expect New Bedford to continue adequate access to the capital markets, if necessary, at the June 2012 and February 2013 maturities.

##### MAJORITY OF DEBT ENHANCED BY MASSACHUSETTS QUALIFIED BOND PROGRAM

The enhanced Aa2 rating and stable outlook assigned to approximately \$84 million of New Bedford's outstanding bonded debt, reflects the credit enhancement provided by the Commonwealth of Massachusetts' Qualified Bond Program. The program is a direct-payment system whereby the Commissioner of Revenue authorizes the State Treasurer to deduct from the city's quarterly state aid payments an amount sufficient to meet the city's debt service on qualified securities. In fiscal 2012 New Bedford is expected to receive aid from the commonwealth totaling more than 13 times the city's maximum projected obligation for debt service on the enhanced bonds. The State Treasurer makes debt



service payments directly to a state-approved paying agent on behalf of the city. We believe that the commonwealth's strong commitment to state aid for municipalities and the program's sound payment mechanisms, which do not rely on the trigger of a notice of potential default, enhance the likelihood of full and timely debt service payment. The programmatic rating is linked to the commonwealth's general obligation rating, which is one rating notch higher at Aa1 with a stable outlook.

#### STABLE FINANCIAL POSITION WITH SLIM RESERVES; OPERATIONS HIGHLY DEPENDENT ON STATE AID

New Bedford's fiscal profile is expected to remain satisfactory, despite recent reductions in state aid, which represented 56.2% of general fund revenues in fiscal 2011 and is expected to remain a significant revenue stream for the city. The city's budget has been stressed since a mid-year \$2.78 million reduction in fiscal 2009 local aid from the commonwealth and a \$1 million deficit in local receipts. Local aid was further reduced by \$7.9 million in fiscal 2010, and again by \$3.7 million in fiscal 2011, which resulted in a total of 139 city-wide position reductions, through layoffs and attrition, fiscal 2009. Despite significant budget cuts, free cash appropriations were not fully replenished and available reserves have steadily declined to \$20.2 million in fiscal 2011 (unaudited), a narrow 7.1% of General Fund revenues, significantly lower than the fiscal 2007 peak of \$29.8 million, a stronger 11% of revenues.

Midway through fiscal 2012 the city has had no significant unanticipated financial events and projects revenues and expenditures close to budget. The city's free cash was certified at \$1.3 million at the end of fiscal 2011, a significant drop from the \$3.2 million fiscal 2010 free cash reflecting an appropriation for collective bargaining settlements. The city maintains a city stabilization fund of \$5.8 million and a school stabilization fund of \$1.2 million, both of which will be reported in the General Fund in fiscal 2011 when GASB 54 standards are adopted. Of note, the City's adoption of local option meals and hotel occupancy excise taxes have added approximately \$860,000 in annual revenues. Enterprise operations are projected to again be positive in fiscal 2012, with small increases to each enterprise's free cash.

A new mayoral administration took office early in January 2012 and is beginning to develop the fiscal 2013 budget. The city's operating budget remains pressured by rising health care costs and slower growth in revenues, however no significant changes to city operations are anticipated. The fiscal 2012 tax rate was adjusted to compensate for loss in assessed value and to capture the 2.5% levy increase allowed under Proposition 2 ½, however the city continues to maintain unused property tax levy capacity of roughly \$4.7 million in an effort to keep commercial property tax rates competitive with other cities in the region. State aid is expected to be flat in fiscal 2013 and was New Bedford's primary revenue source at 56.2% in fiscal 2011; property tax represented 31% of fiscal 2011 revenues and collections have improved to over 96% on a current-year basis, with close to 100% collected within the subsequent fiscal year.

The city's other post employment benefits (OPEB) actuarial study, as of January 1, 2008, identifies an unfunded liability of \$225 million, which is primarily due to retiree health insurance. New Bedford's pay-as-you-go OPEB expense was roughly \$20.5 million in fiscal 2011, significantly lower than the annual required contribution (ARC) of \$30 million, which amortizes the unfunded liability over 30 years, as identified in the study. The city has no plans to establish a trust for OPEB or to fund the unfunded liability. City officials have historically issued RANs (\$10 million in fiscal 2012) to allow prepayment of the city's pension obligations, yielding significant savings in avoided interest charges from the retirement system. RANs are repaid prior to the June 30 fiscal year-end and city officials project similar levels of RAN borrowing in fiscal 2013.

New Bedford will be challenged to maintain service levels as well as adequate reserves and financial flexibility. Moving forward, maintaining structural balance will be critical to the city's financial strength as free cash appropriations, if unreplenished, could further erode reserves. New Bedford's ability to maintain adequate financial flexibility while growing reserves, at a minimum on pace with budgetary expansion, will be critical to the city's credit strength.



## MODERATE NEW DEVELOPMENT CONTINUES IN LARGE COASTAL TAX BASE

New Bedford, located on Buzzards Bay on the southeast shore of Massachusetts, is a local industrial center and a major regional fishing port with a deep water harbor. The city's tax base will sustain additional development, but overall assessed values continue to decline over the near term as regional and national residential real estate values remain soft. The city's assessed valuation has sustained moderate declines totaling 15% since 2008 and averaging 4.1% annually. The city's fiscal 2012 assessed valuation of \$5.67 billion incorporates declines in single and multi-family housing sectors, and relatively stable commercial and industrial values. The city continues to enjoy healthy annual new growth revenue averaging over \$1.5 million since fiscal 2000 due to steady residential development as well as commercial growth and industrial expansion as tax increment financing incentives expire. New growth revenue dipped to only \$987,000 in fiscal 2011, but new commercial development drove an increase to \$1.2 million for fiscal 2012. While continued tax base expansion is anticipated over the longer term, further assessed values declines are likely in the near term due to ongoing weakening in regional residential real estate markets.

New Bedford's economic development programs have been effective in the commercial sector, particularly in former mill properties along the Acushnet River, where site preparation and infrastructure improvements are underway. A proposed extension of the commuter rail from Boston (G.O. rated Aaa/stable outlook), enhancement of the regional airport and improved service offered by the high-speed ferry for passengers and freight to Martha's Vineyard could fuel long-term growth in all sectors. Residential valuations are generally soft and new residential construction has slowed in several 100+ unit developments, however sales of \$300,000 single-family homes continue in the city's North End. Improvements at the city-owned airport are expected to support the vibrant commercial fishing industry by allowing direct shipment of fishing products from the city. Continued tax base development and the expected additional property tax revenues are particularly important to the city's credit profile.

In the past five years the city's large industrial park has added 10 companies and 700,000 square feet of developed property and gained 1,600 employees. Major employers include Southcoast Health System (5,584), Acushnet Company (2,300) and University of Massachusetts--Dartmouth (1,000). Management reports that redevelopment of the city's downtown district is underway as older commercial buildings are redeveloped into student housing for nearby UMass-Dartmouth facilities. However, New Bedford socioeconomic indices are significantly weaker than the state as evidenced by per capita income at 60% and median family income 58% of state medians. The poverty rate is 20.2% and unemployment has fallen from the 14.6% peak in 2010 but remains elevated at 11.7% in November 2011, notably high although historically the jobless rate in the city consistently exceeds that of the commonwealth (6.4% in November 2011). The equalized valuation per capita is a modest \$68,101, well below the commonwealth and national medians.

## MODERATE DEBT BURDEN SUPPORTED BY STATE REIMBURSEMENT FOR SCHOOL PROJECTS

The city's debt position will remain affordable given significant levels of self-supporting debt and anticipated commonwealth grants in support of school construction projects, as well as limited borrowing plans. New Bedford's overall debt burden is a moderate 1.7% of equalized value, which includes a small amount (\$2 million) of overlapping vocational high school and regional refuse system district debt. After significant (90%) anticipated commonwealth school building aid is deducted, New Bedford's overall debt burden drops to a more manageable 1.5% of equalized value. Amortization of long-term principal, including \$139 million in wastewater system loans from the Massachusetts Water Pollution Abatement Trust (rated Aaa/stable outlook), is average at 73.3% within 10 years, and debt service claims a modest level of General Fund expenditures (3% in fiscal 2011). Water and sewer rates are adjusted annually to maintain the self-supporting nature of the water and wastewater enterprise funds. Water and sewer upgrades and school projects represent the majority of the \$190 million in outstanding debt authorizations, however a portion of the outstanding authorizations are no longer needed and are likely to be rescinded. New Bedford has no exposure to variable or auction rate debt or swap agreements.

#### WHAT COULD MAKE THE RATING GO UP

- Substantial and sustained increase in available reserves
- Improvement in local economy, including tax base valuations and demographics

#### WHAT COULD MAKE THE RATING GO DOWN

- Decline in available reserves
- Adoption of less conservative approach to budgeting
- Increase in debt burden

#### KEY STATISTICS

2010 Population (US Census): 95,072 (+3.1% from 2000)

2011 Equalized Valuation: \$6.4 billion

Average Annual Equalized Value Growth (2005-2011): 5.5%

2011 Equalized Value Per Capita: \$68,101

Unemployment (November, 2011): 11.7% (MA 6.4%, US 8.2%)

FY10 General Fund Balance : \$17.5 million (6.1% of General Fund revenues)

FY10 Available Reserves: \$21.6 million (7.6% of General Fund revenues)

FY11 General Fund Balance (unaudited): \$20.2 million (7.1% of General Fund revenues)

FY11 Unrestricted, Spendable General Fund (includes Stabilization Fund) Reserves: \$20.2 million (7.1% of General Fund revenues)

1999 Per capita income: \$15,602 (60% of MA, 72% of US)

1999 Median Family income: \$35,708 (58% of MA, 71% of US)

Overall Debt Burden (adjusted): 1.5%

Amortization of Principal (10 years): 73.3%

General Obligation long-term debt outstanding: \$94.6 million

State Qualified long-term debt outstanding: \$84 million

#### PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Bond Anticipation Notes and Other Short-Term Capital Financings published in May 2007. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 30 April 2012. Further information on the EU



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